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SUBJECT: UPDATE ON BEE CHARTER ISSUES

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[11.](#) (SBU) SUMMARY. Finance Minister Trevor Manuel helped to resolve the deadlock over the composition of the Financial Services Black Economic Empowerment (BEE) Council in a September 20 meeting with industry stakeholders. Banks are concerned, however, that community and labor groups, excluded from charter negotiations over the past two years, will leverage their seats on the BEE Council to review scorecard targets and introduce issues of importance to them. The Council will consider whether to approve R122.5 billion (approximately \$18 billion) empowerment financing targets in its first meeting to be held the second week of October. A DTI official said that companies will not be required to comply with multiple charters. END SUMMARY.

FINANCIAL SERVICES BEE COUNCIL SEATS ALLOCATED

[12.](#) (U) Banks, black business, labor unions and community groups failed to reach agreement on how to allocate seats on the Financial Services BEE Council after months of negotiations. The primary obstacle preventing an agreement was charter language stipulating, "There will be equality between industry association representatives and all others on the Charter Council. The Charter Council must fairly reflect the interests of the financial institutions." Banks interpreted this to mean that they should hold 50 percent of the seats on the Council and were promoting a 16-seat council of which 8 would be allocated to financial associations.

[13.](#) (SBU) At the request of several banking CEOs, Finance Minister Trevor Manuel called a September 20 meeting with all industry stakeholders to resolve the deadlock. According to a U.S. banking official in South Africa, stakeholders were caught off-guard when Manuel presented his own plan for distributing 21 seats among the stakeholders. After little debate, Manuel's plan was accepted. Of the 21 seats, four will go to government, four to labor, four to community groups, six to the industry, and three to the black business body, the Association for Black Securities and Investment Professionals (ABSIP). The government seats will include two officials from the National Treasury, one from the Department of Trade and Industry, and one from the Presidency.

COUNCIL CONCERNS PERSIST

[14.](#) (SBU) Banking Council representative Derek Muller, a Nedcor bank executive, said publicly the 21-seat deal was not ideal, but a workable model. He also stated that business wants the empowerment financing targets approved in the next few weeks. However, a foreign banking executive told Econoff the council was unworkable and the industry has been left to fight among itself for its allocated six seats. The executive said that each bank is waiting for the others to step back and allow the remaining banks to fill the seats. The members of the council should be decided prior to the October meeting.

[15.](#) (SBU) Banks are also concerned that community and labor groups, excluded from charter negotiations over the past two years, will now leverage their seats on the BEE Council to review scorecard targets and introduce issues of importance to them. Community representative and South African Communist Party General Secretary Blade Nzimande said his organization was not happy with some of the proposed scorecard targets. He said that their Council representatives would raise these concerns at the Council's October meeting. This could lead to further delays in rolling out financial services to historically disadvantaged individuals (HDI).

[17.](#) (U) The BEE Council will oversee compliance with the

financial sector charter, including verifying charter points for Black Economic Empowerment (BEE) deals and assessing the BEE progress of banks and finance companies. The council will hold its first meeting in the second week of October and will meet four times a year thereafter. The agenda for the Council's first meeting includes electing a chairperson, discussing how to provide banking services and increase lending to disadvantaged South Africans, and deciding on a conflict resolution mechanism when consensus is unachievable. A Banking Council employee told Econoff that if the council is unable to decide on a mechanism, Manuel would.

EMPOWERMENT FINANCE TARGETS ANNOUNCED

18. (SBU) The council will also review proposed empowerment financing targets of R122.5 billion (approximately \$18.8 billion). In a September 15 meeting at the American Chamber of Commerce in South Africa (AmCham), Banking Council GM Cas Coovadia explained that nine task groups have been evaluating the scorecard's financing targets for nearly a year. In June, the task groups presented their findings to industry stakeholders and recommended adding R47.5 billion to the original target of R75 billion in empowerment financing funds. The money would be distributed over five years in the following manner: (1) R50 billion for black empowerment deals; (2) R42 billion for low-cost housing; (3) R25 billion for infrastructure products; (4) R4.1 billion for small black business; and (5) R1.4 billion for black agriculture. If this target is accepted, it will be the largest investment in BEE finance, overtaking the R100 billion (approximately USD 15.4 billion) committed by the mining sector.

DTI ON MULTI-CHARTER COMPLIANCE QUESTION

19. (SBU) Recent comments by Department of Public Works Deputy Director-General Lydia Bici fueled speculation that institutions may need to comply with multiple charters. At a breakfast hosted by the South African Institute of Black Property Practitioners, Bici said that a property charter would apply to companies participating in other charters. However, Department of Trade and Industry (DTI) Director of BEE Partnerships Jeffrey Ndumo told Econoff that this is not the case. As an example, Ndumo said that a subsidiary of a bank that manufactures goods for sale in the ICT sector would be required to comply with the ICT Charter. Likewise, a subsidiary of a bank that primarily buys, sells, and manages real estate would comply with the Property Charter. However, the bank itself would abide with just the Financial Services Charter. He also pointed out that a subsidiary or division that just procures goods or services for the parent business (e.g., the IT department at ABSA, which has the largest IT procurement in the country) would not be required to adhere to a different charter. Ndumo also explained that if a business operates across many sectors, it would be required to identify its core business and comply with the corresponding charter. Ndumo told Econoff he would be willing to answer these types of technical questions for U.S. businesses in a forum facilitated by the American Chamber of Commerce.

FRAZER